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Kaifu Elected LDP President And New Prime Minister

Toshiki Kaifu, a former education minister, was elected president of the ruling Liberal Democratic Party August 8 and Japan's new prime minister two days later, events the LDP hopes will demonstrate to the electorate that a fresh breeze has blown through the ruling party. Although important changes occurred in election procedures and the candidate-selection process, there were indications nevertheless that the power of LDP factional politics still was quite potent in affecting the 58-year-old politician's rise to the top leadership slot. Time will tell whether these reforms were sufficient to restore the public's flagging faith in the ruling party and whether Mr. Kaifu can demonstrate more leadership acumen than his predecessor, Sosuke Uno, who resigned to take responsibility for the LDP's poor showing in the July 23 upper house election.

politician was widely regarded as the fresh new face that would lead the party out of its Recruit-related problems.

Japanese political insiders contend that despite Mr. Hashimoto's broad public appeal, he is not too popular with some of his colleagues, specifically Shin Kanemaru, Mr. Takeshita's 74-year-old mentor, who reportedly pulled the rug on the LDP secretary general. It appears that Mr. Kanemaru, who was considered a potential candidate until he withdrew from the race July 28, favored Mr. Kaifu over a Takeshita faction member, perhaps because the new prime minister represented the safest compromise between those in the party who felt that a new direction was needed and those who were reluctant to abandon the LDP's 34-year-long "elder statemen" leadership style.

As recently as August 2 Mr. Komoto also was considered a contender for the top post, only to be eased out by traditional LDP insider politics. According to the Japanese press, Mr. Abe told the former MITI minister that the younger LDP members were gaining the upper hand in advocating selection of a more youthful party president, implicitly urging him to drop out of the race. Although Mr. Komoto reportedly made no comment on Mr. Abe's suggestion, his subsequent withdrawal opened the door for his lieutenant. Given the importance placed on seniority in Japanese politics and culture, it would have been highly unusual and quite risky for Mr. Kaifu to run against his own boss. Thus, LDP "kingmakers," such as Messrs. Abe and Kanemaru, had to use their influence to clear the way for the younger generation -- even though this strategy may mean that they and their generation have forfeited a future shot at the topmost leadership.

Mr. Kaifu is the second leader chosen during the past three months to complete the term of former Prime Minister Takeshita. The term ends in October. Mr. Takeshita resigned April 25 to accept responsibility for declining public support of the ruling party and Japanese politics in general as a result of the Recruit affair. Former Foreign Minister Uno was elected June 1 to succeed Mr. Takeshita but after less than three months in office was forced to step down to accept responsibility for the LDP's unprecedented losses in the upper house election.

As mentioned, Mr. Kaifu is untested in high-level economic and foreign policymaking. He probably will have little time and opportunity in the next two-and-a-half months to spread his wings in these areas. Mr. Kaifu's priorities will be on the domestic scene, fighting opposition party efforts to repeal the unpopular 3 percent consumption tax and their call for a lower house election before yearend. In an August 7 campaign speech, Mr. Kaifu acknowledged that "the environment surrounding the LDP is now the hardest since its founding [in 1955]." The new prime minister said he favors a "critical review" of the consumption tax and the use of the monies for social welfare purposes.

Barbara Wanner

Japan's Current Account Surplus Shrinks

Lurking behind virtually every trade figure is a J-curve. That seems to be one lesson of Japan's most recent current account statistics, which show a 24.7 percent drop in the surplus in the April-June quarter compared to a year earlier (see Table 1). The J-curve refers to the fact that exports and imports

Table 1: Japan's Balance of Payments

(in millions of dollars)

	Trade Balance	Exports (f.o.b.)	Imports (f.o.b.)	Services (net)	Current Account Balance	Long-Term Capital (net)
1984	$44,257	$168,290	$124,033	$-7,747	$35,003	$-49,651
1985	55,986	174,015	118,029	-5,165	49,169	-64,542
1986	92,827	205,591	112,764	-4,932	85,845	-131,461
1987	96,386	224,605	128,219	-5,702	87,015	-136,532
1988	95,012	259,765	164,753	-11,263	79,631	-130,930
1987: I	23,373	50,515	27,142	-1,348	20,962	-32,209
II	25,038	55,823	30,785	-1,601	22,762	-44,365
III	23,585	56,600	33,015	-1,757	21,189	-22,023
IV	24,390	61,667	37,277	-996	22,102	-37,935
1988: I	21,021	59,345	38,324	-1,337	18,421	-15,142
II	22,448	63,559	41,111	-2,882	18,567	-36,556
III	23,765	65,989	42,224	-3,623	19,052	-42,214
IV	27,778	70,872	43,094	-3,421	23,591	-37,018
1989: I	21,311	66,945	45,634	-3,595	16,064	-5,612
II (p)	19,619	66,393	46,774	-5,010	13,987	-30,096

Table 2: Japan's Net Purchases of Foreign Securities

(in millions of dollars)

	Bonds			Stocks		
	Purchases	Sales	Net	Purchases	Sales	Net
1984	$56,348	$29,575	$26,773	$1,570	$1,519	$51
1985	291,338	237,859	53,479	5,484	4,489	995
1986	1,346,989	1,253,965	93,024	20,917	13,869	7,048
1987	1,273,829	1,200,944	72,885	70,936	54,062	16,874
1988	1,364,061	1,278,249	85,812	76,560	73,567	2,993
1987: I	377,850	354,648	23,202	13,925	9,386	4,539
II	341,880	316,585	25,295	15,277	9,797	5,480
III	325,517	308,421	17,096	21,882	18,370	3,512
IV	228,582	221,290	7,292	19,852	16,509	3,343
1988: I	332,047	318,877	13,170	18,901	19,467	-566
II	401,293	374,371	26,922	20,518	20,643	-125
III	333,473	307,635	25,838	25,166	23,425	1,741
IV	297,248	277,366	19,882	11,975	10,032	1,943
1989: I	341,774	327,771	14,003	17,724	17,828	-104
II (p)	487,087	461,996	25,091	21,228	15,120	6,108

Source for Tables 1-2: Bank of Japan

usually are measured by a flexible yardstick -- the dollar. If the dollar strengthens, the yardstick lengthens so that any given volume of trade is represented by fewer dollars. The gap between exports and imports may appear to shrink even if it has widened in volume terms. Just this happened in the first half of 1989 as the dollar appreciated against the yen. In fact, the dollar-denominated current account surplus in April-June dropped to its second-lowest level since July-September 1985.

The September 22, 1985 Plaza Accord has been credited with realigning world currencies, with the dollar losing as much as half its value against the yen. By late 1985 one immediate result of the dollar's drop was a larger dollar-denominated trade surplus in Japan. No problem, said the experts: the J-curve effect was creating some temporary messiness that well-functioning markets would soon straighten up. The shape of the "J" also suggested that, as exporters and importers completed their adjustments to different relative prices, the imbalance would eventually diminish, just as the parties to the Plaza Accord had hoped.

In mid-1987 a new act opened in the yen drama. Despite continuing dollar depreciation creating a whole new series of Js, the current account imbalance started to shrink. But almost as soon as that hoped-for turn of events seemed fully established, the pattern appeared to reverse: in 1988's fourth quarter the current account surplus increased over the comparable 1987 level. This time no J-curve came to the rescue, and policymakers in Tokyo and Washington started to wring their hands over this unexpected and unfortunate development.

But even as they spoke, the by-now familiar letter had crept back onto the stage. Beginning last winter, the costar of this drama -- the dollar -- began rising. With this unexpected twist in the plot, the J-curve took up an accustomed stance as the explanation: Japanese exports are now valued in more expensive dollars, and the yardstick has stretched to a length longer than a few months ago but shorter than three years ago. Like a character approaching the limelight slowly, this phenomenon was barely visible in the January-March 1989 statistics, when it was obscured by fluctuations in the data for other reasons.

But in the latest figures, the J-curve is back in the spotlight. As indicated in the customs-clearance trade statistics released earlier, export volumes actually grew faster than import volumes in the April-June quarter, yet the trade surplus declined (see JEI Report No. 29B, July 28, 1989), precisely the reverse of what happened in the months immediately following the Plaza Accord. With the addition of services -- where surging foreign travel widened an already large deficit -- the current account surplus showed a sharp decline. Deficits in other services were enough to offset positive net investment income, leaving the overall services imbalance closely reflecting the growth in foreign travel.

So far the experts have written at least two versions of the next act. A few expect the pesky J-curve to make an early exit, with the current account imbalance ending up larger for 1989 than it would have in the absence of the yen's appreciation. A majority, however, suggest that the J-curve will stick around long enough to shrink the current account balance for fiscal year 1989, which ends March 31, 1990, compared both to earlier FY 1989 estimates that had anticipated a relatively strong yen and to the actual result for FY 1988 (see following article).

If the current account is likely to show the J-curve effect for all of FY 1989, then the influence is even more likely for this calendar year. Simple arithmetic suggests that conclusion. The current account imbalances for the second half of 1989 would have to reach record high levels to offset the smaller surpluses in the first half of calendar 1989.

Some experts argue that what is going on backstage is more important, suggesting that capital flows actually determine exchange rates and through them external imbalances. If that is the case, the dollar may not have seen its high for 1989. As shown in Table 2, Japanese investors continued to have a healthy appetite for foreign bonds between April and June. Moreover, net investment in foreign stocks jumped to levels not seen since before Black Monday in October 1987. For Americans, who are on the receiving end of the lion's share of both kinds of investment, this amounted to a vote of confidence in the U.S. economy. For Japanese investors in the United States, the strengthening dollar has enabled a double reward. Not only do they benefit from higher interest rates here, but they have profited from having their dollar-denominated assets translate into a larger number of yen. Although a host of unscripted events could sway exchange rates, if past experience informs future actions, capital flows from Japan to the United States could be headed higher. This could create more dollar appreciation and -- one suspects -- still more J-curves, further reducing the Japanese surplus in 1989, although pushing it higher later.

But such a phenomenon would be the penultimate act at best. A broad consensus continues to insist that eventually the dollar will resume depreciating and bring with it -- after yet another J-curve reprise -- further sustained progress on reducing Japan's trade and current account surpluses. Careful observation of the acts performed to date suggest that the plot has been moving in that direction already, but with enough twists and turns to confuse even those paying the closest attention.

Douglas Ostrom

Forecasters Upbeat On Japanese Economy

How much longer can the good news last? That is the question both Japanese and American economists are asking about economic expansions in their respective countries, now two-and-a-half years old in Japan and even older in the United States. The U.S. hope is for a soft landing to avoid a recession; in Japan the expectation is that the aircraft will simply slow down a little. For example, in January Tokyo said it expected real economic growth to average 4 percent during fiscal 1989, which began April 1; that would be down slightly from the 5.1 percent rate registered in FY 1988 (see JEI Report No. 9A, March 3, 1989).

Now many experts believe the change in the velocity of the Japanese economy will be even more modest. Private forecasters, who last winter saw inflation-adjusted growth slowing to 4.2 percent on average in FY 1989, by this summer were predicting a 4.7 percent increase (see Table). Reflecting the depreciation of the yen throughout the first six months of 1989, the revised forecasts now count on the currency to be weaker for the whole fiscal year. Even so, the dollar-denominated current account surplus is expected to be smaller than previously thought, implying a larger drop from the $77.3 billion

imbalance registered for FY 1988. Generally these revisions appear to reflect the short-run narrowing of the surplus that has resulted from the yen's depreciation earlier this year (see previous article). In some contrast, Mitsui Trust & Banking Co., Ltd. explained that larger-than-expected expenditures by Japanese tourists abroad also played a role in its downward revision of the expected FY 1989 current account surplus.

Recent Economic Forecasts for Fiscal 1989

	Real Gross National Product		Current Account Surplus*	
	Original	Revised	Original	Revised
Daiwa Bank, Ltd.	4.3%	5.1%	$76.7	n.a.
Daiwa Securities Research Institute	5.0	5.0	74.6	$66.9
Meiji Mutual Life Insurance Co.	4.2	4.8	76.5	72.3
Mitsubishi Research Institute	4.1	4.8	73.3	70.2
Okasan Economic Research Institute	4.5	4.8	76.1	73.4
Nikko Research Center	4.4	4.7	77.0	73.6
Mitsui Trust & Banking Co., Ltd.	3.9	4.5	75.4	74.0
Nippon Credit Bank, Ltd.	3.4	4.1	72.9	67.0
Average	4.2	4.7	75.3	71.1

*In billions of dollars.

While the outlook for all of FY 1989 is good and getting better, many experts believe that the Japanese economy flew through some turbulence during the fiscal year's first quarter. Some reports indicate that the April-June gross national product data to be released in September could show negative growth from the previous quarter, reflecting a slowdown in consumer spending in reaction to the consumption tax implemented April 1. Possibly foreshadowing such a development, average household consumer spending has fallen in the past two months from year-earlier levels. The decrease in real terms came to 0.8 percent in April and 2.9 percent in May; the latter figure was the largest year-to-year drop in more than four years. However, the Economic Planning Agency was quick to point out that the period from March to May showed a 1 percent increase over the year before. Furthermore, EPA believes that spending growth picked up in June.

Optimists can take heart from the seasonally adjusted, month-to-month pattern of output in manufacturing, which soared 5.4 percent in March prior to the new tax, dropped 3.8 percent in April, only to grow 0.5 percent in May and 1.5 percent in June, leaving it 7.3 percent ahead of June 1988.

In their latest estimates, private forecasters shrugged off not only the inconsistent and somewhat disturbing pattern of recent economic data but the possible negative impact of policy changes. For example, both the increase in the discount rate May 31 and the July 23 Diet election results were seen as having little impact. Higher interest rates normally could be expected to slow capital spending. And, prior to the election, some experts had predicted that a massive defeat for Japan's ruling party would cause cutbacks in plant and

equipment spending plans. But even after the results proved to be worse for the Liberal Democratic Party than anticipated, Daiwa Bank, Ltd. incorporated healthier plant and equipment spending in its outlook for FY 1989 than it had previously. The upbeat projections by Daiwa and other forecasters seemed to reinforce the idea that Japanese economic growth was self-perpetuating and little affected by political factors or policy decisions.

Douglas Ostrom

Japan Maintains Cautious China Stance

While Beijing tries to convince the world that China has returned to normal after the violent June suppression of the prodemocracy student movement, Tokyo and Japanese businesses continue to move cautiously on bilateral political and economic relations. After stiffening its stance in coordination with leading Western industrial nations, Tokyo has urged Beijing to address squarely the simmering popular discontent and to "normalize" the domestic situation. Tokyo is concerned that instability in China will strain regional stability.

Just prior to the July 14 Paris summit meeting of the seven major industrialized nations, a Foreign Ministry spokesmen toughened Tokyo's two-track policy toward China. "On the one hand," he said, "we will keep expressing our regret and condemn China for the repression and brutal activities against students and citizens. At the same time, we should not lose sight of our long-term policy direction in which the modernization and open-door policy of China should be maintained." The statement was notable in contrast to Tokyo's earlier comments for its forthright naming of the Chinese government and for the use of stronger language, including "condemn" and "repression."

The Japanese government held to its careful approach at the Paris summit, agreeing with the six other participants that Beijing's actions must be condemned on humanitarian grounds. But it rejected any call for sanctions or other actions that would isolate China economically or politically. The summit's political declaration followed Tokyo's rationale, condemning the repression yet allowing each participant to impose appropriate measures independently. The communique concluded by echoing one of Tokyo's themes: "We look to the Chinese authorities to create conditions which will avoid their isolation and provide for a return to cooperation based upon the resumption of movement toward political and economic reform and openness."

Beijing's reaction to the declaration was harsher than expected. Tang Jiaxuan, the Chinese charge d'affaires at the Tokyo embassy, called the statement a "violent interference" in China's internal affairs. While vigorously defending his government's actions, Mr. Tang ignored Japanese representations that Tokyo had worked to restrain the summit statement as much as possible. Instead, he pressed Tokyo to resume open and cooperative economic and political relations since the situation in China had calmed down.

According to press reports, overt dissent has been quelled in Beijing with a few exceptions, such as reports of snipers operating against soldiers. With the return of at least surface calm, Japanese businesses rapidly reactivated their China offices, a move that elicited cries from Western observers that Japan was profiting from the absence of American and West European competitors. Of the 1,000 or so Japanese businessmen previously operating in China

about half returned, primarily to settle accounts or fulfill existing contracts; government and private sources report that almost no new business was being arranged. Negative travel advisories from Tokyo have drastically cut the flow of Japanese tourists. Threats from a mysterious Chinese group to kill two Japanese a month if Japan did not stop its "economic invasion" of China has led to a second exodus of Japanese businessmen, who have moved their households out of China and are commuting between Tokyo and Beijing when necessary.

Despite its desperate bid to put the best face on recent events, Beijing has effectively admitted that the economic consequences of its political repression are significant. On August 1 the Chinese government implemented new foreign trade controls. To prevent price-gouging by foreign vendors and "internal trade wars," among domestic firms, only state-owned trade corporations will have permission to import products in great demand, such as fertilizers, grain, sugar, steel, pesticides, oil, timber, synthetic fibers and tobacco. Imports of 148 luxury items, including cars, motorcycles, home appliances and consumer electronics, will require a permit from the central government six months in advance. Imports and exports will be inspected to ensure their quality; some imports have been criticized as defective or second-hand while exports often have failed to meet buyers' expectations or international standards.

Japanese firms have reacted with nonchalance to the new restrictions, saying that exports to China were dropping sharply before the new rules came into effect and that they do not expect business to return to pre-June levels anytime soon. The specter that China will be unable to fulfill future financial obligations led the Japan Center for International Finance, a research organization backed by the Ministry of Finance and Japanese financial institutions, to downgrade China's credit rating from B to C on a scale of A to E.

The Foreign Ministry is worried that China will become uncooperative as a result of economic and political sanctions. At international talks on the Kampuchean situation at the end of July, for example, Beijing held out for a greater role for the Khmer Rouge, its ally, in any coalition government. Although a compromise eventually was reached, China underscored its ability to block or derail peace initiatives in Asia.

In sum, the Japanese have taken an overall wait-and-see attitude toward China. Tokyo expects Beijing to provide concrete evidence of its commitment to human rights and economic modernization. Businessmen are looking for much the same. Until China responds satisfactorily and international opinion shifts on the merits of the Beijing government, Japan will continue its cautious course.

Jon Choy

Senate Passes Burdensharing And FSX Measures

The Senate's frustration with Japan's defense policies found partial expression in the FY 1990-FY 1991 Defense Authorization Act, passed by the upper chamber August 2. Senate Armed Services Committee chairman Sam Nunn (D, Ga.) introduced a package of burdensharing amendments that are designed to increase pressure on members of the North Atlantic Treaty Organization, Japan and South Korea to augment their contributions to the costs of their own defense. The amendments were approved by voice vote.

Regarding Japan, the Senate noted that "extraordinary political, economic and social changes" in postwar Japan have rendered the country capable of contributing more to its own defense. It is acknowledged widely among legislators that security contributions can entail either economic assistance (especially aid to strategically important countries) or defense spending (see JEI Report No. 19A, May 13, 1988). Congress has tended to emphasize Japanese aid because of the political difficulties Tokyo has in expanding Japan's defense expenditures significantly beyond 1 percent of its gross national product.

The Tokyo-targeted amendment stresses that Japan's official development assistance and military expenditures, measured as a percentage of GNP, should equal those of NATO members by yearend 1992. Although Japan's absolute security spending is the third largest in the world, expenditures are quite small relative to its GNP. According to the August 1988 Report of the Defense Burdensharing Panel by the House Armed Services Committee, Japan is ahead only of Luxembourg in defense expenditures, when expenditures are measured as a percentage of GNP (see Table).

Security Expenditures by NATO Countries and Japan, 1986

(percent of gross national product)

Country	Defense Expenditures	Economic Assistance	Combined Expenditures
United States	6.7%	0.2%	6.9%
NATO Allies			
Belgium	3.0	0.5	3.4
Canada	2.2	0.5	2.6
Denmark	2.0	0.8	2.9
France	3.9	0.7	4.6
Germany	3.1	0.4	3.5
Greece	6.1	---	6.1
Italy	2.2	0.4	2.6
Luxembourg	0.9	---	0.9
Netherlands	3.0	1.0	4.0
Norway	3.1	1.1	4.3
Portugal	3.2	---	3.2
Spain	2.0	---	2.0
Turkey	4.8	---	4.8
United Kingdom	5.0	0.3	5.3
Non-U.S. NATO Weighted Average	3.3	0.5	3.7
Japan	1.0	0.3	1.3

Note: Defense expenditures for Spain and Japan use national rather than NATO definition.

Source: House Armed Services Committee, Report of the Defense Burdensharing Panel, August 1988.

Other provisions in the burdensharing package urge Japan to:

- Target foreign aid flows toward the Philippines and non-Asian countries that are strategically important, especially those in Latin America, the Caribbean and the Mediterranean;

- Disburse more aid in the form of untied grants;

- Hold consultations with security allies when selecting aid recipients;

- Take greater strides toward achieving Tokyo's pledge to acquire the capability to defend Japanese land, airspace and sea lanes to a distance of 1,000 nautical miles to the south and east; and

- Buy more off-the-shelf military equipment and weapons systems from the United States.

The burdensharing provisions also require the administration to negotiate with Japan to achieve Japanese security contributions equal to 100 percent of the direct costs of maintaining the U.S. forces that defend the country. (Tokyo currently provides 40 percent of the $6 billion costs of maintaining U.S. forces in Japan.) Another amendment in the package requires the White House to explore the possibility and the desirability of reducing U.S. military forces in South Korea. With regard to NATO, the Senate ordered a Defense Department study of the U.S.-allied forces ratio in Europe, followed by a recommendation as to whether the president should negotiate with NATO allies on increasing the number of their forces assigned to permanent duty in European nations.

A second Japan-related section in the bill illustrates that Congress still has reservations about the U.S. decision to participate in the joint development and production of Japan's next-generation fighter support aircraft, FSX (see JEI Report No. 21A, May 26, 1989). Sens. Robert Byrd (D, W.Va.) and John Danforth (R, Mo.) cosponsored a measure that would require the defense secretary to invite comments from the secretary of commerce on any proposals for arms cooperation agreements, such as the FSX deal. If Commerce finds that the proposal could adversely affect U.S. competitiveness, it could request an interagency review of the project; similarly, the president could block an arms cooperation agreement on the grounds that the threat to U.S. competitiveness is greater than the possible security benefits of cooperation.

The Senate's passage of the measure follows President Bush's decision to veto legislation that imposed additional conditions on U.S. participation in the FSX project and, more generally, future cooperative ventures (see JEI Report No. 30B, August 4, 1989). The vetoed legislation would have required that U.S. companies perform no less than 40 percent of the production work on the FSX and that no critical engine technology be transferred to Japan. The administration has argued that such requirements violate the constitutional separation of powers by allowing congressional intrusion into an area of executive negotiating authority.

Whether these measures will remain in a House-Senate conference report is not yet certain. But the Senate's message is clear: the United States is shouldering too big a defense burden without giving due consideration to the effect of massive defense expenditures on economic competitiveness. The general

impression is that such single-minded attention to defense needs has resulted in unintentional U.S. underwriting of Japanese economic prowess.

Eileen M. Doherty

Interference Clouds HDTV Picture

After months of a steady drumbeat of public and private opinion favoring a concerted effort to develop a domestic version of next-generation television technology, dissonance is appearing. Even among those in favor of an American high-definition television industry, differences of opinion on the role of the government are creating new hurdles to developing a national strategy.

A Congressional Budget Office study, presented at an August 1 hearing before the Senate Governmental Affairs Committee, downplayed the potential impact of a domestic HDTV industry on related industries, such as semiconductors and computers. Even if the most optimistic growth estimates came true, the report argues, HDTV still would represent only about 10 percent of the global electronics industry -- too small a sum to make or break the U.S. industry's fortunes. Such a relatively minor market could not act as a "technology driver." Consumer acceptance of HDTV is at best uncertain, the CBO study estimates, noting that penetration is likely to be slow, as it was in the case of color television. In any case, the report submits that the majority of HDTV display equipment will be produced in the United States, whether by domestic or foreign companies, because of the components' size and fragility in shipping. For all these reasons, government financial support for HDTV development is unwarranted, CBO analysts conclude, recommending against granting special tax and antitrust waivers aimed solely at HDTV.

Concurring with the CBO report, the Electronics Industry Association suggested at the Governmental Affairs Committee hearing that the current debate on advanced television is focused too narrowly. While attacking those who forecast the imminent replacement of bulky cathode-ray tubes by flat-panel displays and pointing out important differences between computer workstations and home televisions, EIA argued that "the U.S. electronic industry prospers within a healthy economic environment that encourages investment in research and development and minimizes interference with free market transactions." Rather than picking specific technologies to promote, EIA said, Washington should: reduce the federal budget deficit; shift federal spending toward education, worker training, infrastructure and commercial science and technology; change tax laws to encourage investment; make the research and development tax credit permanent; and relax antitrust restrictions on joint production ventures. If Washington insists on doing something for HDTV, the group suggested that it should provide public funding for generic HDTV technologies, such as integrated circuits, large displays and manufacturing technology, and require that any publicly funded HDTV research be performed in the United States.

The response to the CBO report from other analysts and industry groups was far less favorable. Most criticized the report for being too narrow by considering HDTV as an isolated, separate market. As one example of a lucrative spin-off, a witness before the Senate committee pointed to the Federal Aviation Administration's contract for an advanced air traffic control system that includes up to 10,000 high-resolution monitors worth an estimated $1 billion. It also was pointed out that a Japanese firm is likely to receive the contract.